CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager *Richard C. Rossi, Deputy City Manager*

February 8, 2011

To the Honorable, the City Council:

Please find attached the Moody's Investors Service and Standard and Poor's Rating Services reports confirming the City's Triple A bond rating.

The Fitch Credit Rating report was provided to you at the February 7, 2011 Council meeting however, I've attached that report as well for your convenience.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
Attachments

MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa TO CAMBRIDGE'S (MA) $46.2 MILLION GO BONDS

Global Credit Research - 28 Jan 2011

TOTAL OF $357 MILLION IN RATED DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

Municipality
MA

Moody's Rating

ISSUE	**RATING**
General Obligation Bonds, Municipal Purpose Loan of 2011	Aaa

Sale Amount	$46,220,000
Expected Sale Date	02/15/11
Rating Description	General Obligation

Opinion

NEW YORK, Jan 28, 2011 -- Moody's Investors Service has assigned a Aaa rating to the City of Cambridge's $46.2 million General Obligation Bonds, Municipal Purpose Loan of 2011. Concurrently, Moody's has affirmed the Aaa rating assigned to the city's $310 million in outstanding long-term general obligation debt.

SUMMARY RATING RATIONALE:

The bonds are secured by the city's general obligation, limited tax pledge as debt service has not been excluded from the levy limitations of Proposition 2 ½. The bonds are issued to fund the city's fiscal 2011 public investment program, which consists primarily of school construction and sewer system projects. The Aaa rating reflects the city's large, diverse and stable tax base, which is anchored by prominent higher education institutions and a growing research and development sector. Also incorporated into the Aaa rating are an exceptionally strong and resilient financial position which has performed well through the national economic downturn, management's consistently conservative approach to budgeting and a favorable debt profile supported by healthy enterprise systems and historically strong commonwealth school construction aid.

STRENGTHS:

"Large and diverse tax base anchored by stable universities

"Robust financial position guided by sound management policies

CHALLENGES:

"Growing long-term liabilities including pension and OPEB

"High regional costs of living and doing business

INSTITUTIONAL PRESENCE AND STRONG GROWTH IN RESEARCH & DEVELOPMENT MAINTAIN TAX BASE STRENGTH AND DIVERSITY

Cambridge's economy benefits from the presence of Harvard University (rated Aaa/stable outlook) and the Massachusetts Institute of Technology (MIT, also rated Aaa/stable outlook)--which together enroll 28,400 students and provide employment for over 18,000 full-time equivalent positions--and the related vibrant biotechnology, pharmaceutical and life sciences employment base. Together these institutions comprise 43% of the jobs provided by the city's top 25 employers while building permits issued to the universities historically represent a significant portion of the city's annual activity. Cambridge's sizeable equalized value of $27.89 billion continues to grow, despite the economic downturn, due to ongoing expansion of the city's commercial and limited growth in the residential sector. Assessed valuation declined modestly by 0.5% in fiscal 2011, reflecting ongoing regional declines in residential market values. Revenue from new growth in the tax base has dropped sharply from the fiscal 2008 peak of $17.1 million to $6.7 million in fiscal 2011. Reflecting expectations of prolonged weakness in real estate values, city officials project annual residential and commercial assessed valuation declines of up to 1% in the near term, with modest 2% gains in the medium term. However, year-to-date building permit valuations and revenues have increased in fiscal 2011, already exceeding revenues from 2010, indicating stronger future growth trends. Building permit activity remains concentrated in the commercial sector and includes significant institutional development, the majority of which is tax-exempt.

Since 2003, the city has added over 2.8 million square feet of commercial space and city officials report that over 5.1 million additional square feet research and development space, primarily slated for biotechnology research and development, is in various stages of permitting and construction in the city's targeted economic development districts. Office vacancy rates have dropped slightly to 11.6% in the third quarter of 2010 (down from 12.8% in the third quarter of 2009) and are still significantly lower than the 14.3% rate for the same period in 2005 and the peak of 22% in 2003. Cambridge's commercial vacancy rate typically lags Boston's vacancy rate but compares favorably to the regional suburban vacancy rate; in the third quarter of 2010 Boston and suburban rates were 9.6% and 17.2%, respectively. Residential growth is also projected to experience moderate medium term growth due to ongoing rehabilitation of the existing housing stock and new developments, which are projected to add over 1,000 rental and condominium housing units in the near term. Demographic indices are somewhat tempered by the high student population, although wealth levels are strong despite the tax-exempt status of nearly one-third of the tax base. The city's equalized value per capita grew to a robust $264,143 in fiscal 2011; income levels are above average relative to state and national norms with Per Capita Income of $31,156 and Median Family Income of $59,423.

CITY MAINTAINS STRONG RESERVE POSITION DESPITE PRESSURE ON STATE AND LOCAL REVENUES

Although Moody's expects local governments' recovery from the recession to lag the general economic recovery, Cambridge is expected to maintain a healthy financial position in the near term. The city continues to benefit from high financial flexibility and robust reserve levels, which position it to absorb several years of flat or declining state aid and local revenues with only moderate declines in reserves. Cambridge's strong management team has historically followed a prudent fiscal strategy, and beginning in fiscal 2008, follows formally adopted fiscal policies for its annual budgeting. Steady revenue streams, generated by its substantial and economically vibrant tax base, provide a notable degree of flexibility to address future budgetary challenges. The city remains dependent on local property taxes, which represented 65.3% of fiscal 2010 general fund revenues, and to a lesser extent on commonwealth aid, representing roughly 7.9% of fiscal 2010 revenues. After a sustained period of annual operating surpluses, averaging roughly $15 million since 2004, operations in fiscal 2009 and 2010 yielded modest deficits of roughly $11 million. Although revenues and expenditures are carefully managed, the city has made moderate appropriations of free cash to support operations and moderate tax rate increases. General fund balance declined to $146 million in fiscal 2010, a still ample 35.8% of general fund revenues. Unreserved fund balance declined to $129 million, 31.7% of revenues, although free cash, the most conservative measure of legally available reserves as certified by the commonwealth, improved modestly to $89 million, a sound 22% of revenues. The increase in free cash, which is contrary to the decline in the General Fund, primarily reflects the timing of the appropriation of free cash for the subsequent fiscal year's budget, which occurred after the end of fiscal 2010.

For the fourth consecutive year in fiscal 2011, Cambridge's adopted budget includes formal investment, debt and reserve policies that have informally guided and maintained the city's financial health. The city is well above its policies requiring total and unreserved undesignated general fund balance equal or greater to 15% and 25%, respectively, of the ensuing fiscal year's operating revenue. Despite ongoing expenditure pressures and limited opportunities for revenue growth, Moody's expects the city to maintain a conservative approach to forecasting and monitoring revenues and expenditures, to remain in compliance with its policies and will continue to develop long-range projections. The fiscal 2011 expenditure budget contains a modest overall 3.1% increase over the adjusted fiscal 2010 budget, driven by ongoing expenditure pressures in several areas including salaries, pension and health insurance, energy, debt service and regional wastewater assessments. The city's budget was balanced by a 5.7% property tax levy increase as well as a total appropriation of $22.9 million in reserves, which included $11.4 million in free cash, $9.5 million stabilization and $2 million overlay reserves. Despite budgeted draws on reserves and ongoing declines in state revenues, Moody's expects operations to be balanced, with positive variances in revenues and expenditures expected, allowing it to maintain reserve and levy capacity levels approximating those in fiscal 2010. Conservative medium-term projections indicate manageable budget growth averaging 3% annually through fiscal 2015 and driving annual property tax levy increases averaging a moderate 6%.

Cambridge's robust financial position benefits from additional reserves in its Stabilization, Parking and Health Claims Trust Funds, which totaled $49 million in fiscal 2010. Further, in 2001 voters passed the Community Preservation Act (CPA), imposing a 3% surtax and qualifying the city to receive state matching funds; in all, $101 million has been appropriated or reserved since adoption. CPA funds are available to fund affordable housing, historic preservation and open space conservation, and notably have enabled the development or preservation of over 3,000 units of housing in the city. The city received roughly 1.7% ($7.1 million) of revenues from Payments In Lieu of Taxes (PILOTs) in fiscal 2010, with the majority coming from Harvard University (rated Aaa/stable outlook) and the Massachusetts Institute of Technology (MIT, also rated Aaa/stable outlook). Both institutions own significant taxable real estate and are major taxpayers, which together represent 8.9% of Cambridge's 2011 assessed value and roughly 13% of the levy. The city has signed a 40-year, $101 million agreement with MIT and the PILOT with Harvard was renewed for 50 years.

Each PILOT includes annual escalators on the initial base payment over the term of the agreement to provide stability and to allow long-range planning for the city.

Additional flexibility is derived from Cambridge's ample excess property tax levy capacity under Proposition 2 ½, historically maintained at robust levels and currently the highest of any Massachusetts city or town. Despite recessionary pressures and sluggish local revenue growth, the city's excess levy capacity reached $99.4 million in fiscal 2011 and has more than tripled since fiscal 2003 due to strong tax base expansion and controlled expenditure growth. Levy capacity is projected to stabilize or decline slightly in the medium term allowing the city significant flexibility to accommodate unanticipated demands in future budget cycles. The city's conservative medium-range projections also show a planned use of up to $9.5 million in fiscal 2012 from the City and School Debt Stabilization Funds and roughly $5 million from these funds through fiscal 2015, which is expected to deplete both stabilization funds, however Moody's believes careful expenditure management and limited use of the city's additional reserves will continue to provide sufficient flexibility for contingencies. Overall, Moody's expects that Cambridge is exceptionally well-positioned to maintain its sound financial position during an anticipated period of economic uncertainty and constrained revenue growth.

The city's has updated its actuarial study, reflecting values on January 1, 2009, to quantify its Other Post Employment Benefit (OPEB) liability in order to comply with GASB 45 reporting deadlines. Cambridge's unfunded actuarial accrued liability (UAAL) is roughly $599 million. The city budgeted roughly $19 million for pay-as-you-go retiree health care expense in fiscal 2011; funding the full annually required contribution (ARC) would require an additional appropriation of up to $25.5 million. An irrevocable OPEB trust was established and initially funded in fiscal 2010 with a $2 million transfer from the city's health claims trust account (leaving roughly $15 million in the trust fund). Management is evaluating options to establish recurring streams of revenue to fund the liability, including diversions of the current revenue streams allocated to pensions when that liability is retired, as well as savings in the city's health insurance costs as employee contributions are adjusted upward. The city's retirement system was nearly fully funded in 2008 (92%) but has subsequently experienced significant losses, consistent with similar systems nationwide, and has adopted a new funding schedule, extending its full funding date to 2029, 11 years short of the state deadline of 2040 but significantly past the prior schedule's final year of 2013.

AFFORDABLE BURDEN WITH MANAGEABLE PUBLIC INVESTMENT PROGRAM

Moody's expects the city's debt obligations to remain affordable given a sizeable level of self-supporting debt, and a rapid principal retirement schedule. The city's direct debt burden of 1% of equalized value rises to a moderate 1.7% after including overlapping debt from the Massachusetts Water Resources Authority (MWRA senior lien debt rated Aa1/negative outlook). Self-supporting water and sewer enterprise debt as well as the city's pay-as-you-go funding plan, budgeted at approximately $2 million annually, also contribute to Cambridge's favorable debt ratios. Direct debt is retired at an average pace of 77.2% within 10 years. Despite the significant amount of self-supporting debt, general fund-supported debt service claimed a somewhat elevated 10.3% of fiscal 2010 expenditures; due to the completion of a number of significant capital projects, and the ongoing renovation of Cambridge Rindge and Latin School, debt service expenditures have more than doubled from a more moderate 3.8% of expenditures in fiscal 2001. However, the city remains comfortably below its policy to limit general fund debt service to 12.5% of operating expenditures. City officials plan to issue approximately $134 million in debt over the next four years to fund citywide capital projects under previous authorizations as well as those projects included in its $202 million public investment plan. However, with roughly 29%

of the debt expected to be supported by user fees Moody's expects Cambridge's debt burden to increase modestly but to remain manageable. Cambridge has no exposure to variable or auction rate debt or swap agreements.

WHAT COULD MOVE THE RATING DOWN:

"Significant reduction in reserve levels or property tax levy capacity

"Adoption of less conservative approach to budgeting and financial management

"Deterioration of tax base or local economy

KEY STATISTICS

2009 Estimated Population (US Census): 105,596 (+4.2% since 2000)

2000 Per Capita Income: $31,156 (120% of MA, 144% of US)

2000 Median Family Income: $59,423 (96% of MA, 119% of US)

Unemployment, October 2010: 5.3% (MA 7.7%, US 9%)

2011 Equalized Value: $27.89 billion

2011 Equalized Value per Capita: $264,143

Equalized Value Average Annual Growth 2005-2011: 4.8%

FY10 General Fund Balance: $146 million (35.8% of General Fund revenues)

FY10 Undesignated General Fund Balance: $129 million (31.7% of General Fund revenues)

FY10 City and School Stabilization Fund combined balance: $20.7 million (5.1% of General Fund revenues)

FY09 School Debt Stabilization Fund balance: $9.9 million (2.5% of General Fund revenues)

Overall Debt Burden: 1.7%

Amortization of principal (10 years): 77.2%

Post-sale long-term debt outstanding: $357 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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RatingsDirect
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Cambridge, Massachusetts

Credit Profile		
US$46.22 mil GO bnds mun purp loan of 2011 dtd 02/15/2011 due 02/15/2031		
Long Term Rating	AAA/Stable	New
Cambridge GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Cambridge, Mass.' general obligation (GO) municipal purpose loan of 2011 bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's GO parity debt.
The rating reflects our opinion of the city's:

- Strong and dynamic local economy, anchored by Harvard University and Massachusetts Institute of Technology (MIT), as well as biotechnology and high-tech firms;
- Above-average wealth and income factors, including a high market value per capita;
- Very strong financial position, despite a decline in fiscal 2009, coupled with an experienced management team and strong management policies; and
- Low debt burden and manageable capital plan.

The city's full faith and credit pledge secures the bonds. Officials will use bond proceeds to fund various capital projects.

Cambridge, with a stable population estimate of 105,600, is across the Charles River from Boston (AA+/Stable). Anchored by the intellectual capital of Harvard University and MIT, the local economy is strong and concentrated in high-tech, biotechnology, engineering, medicine, education, and consulting. In our view, income levels are strong: Median household effective buying income is 113% of the national level and per capita effective buying income is higher, at 141% of the national level. In our opinion, the city's economy has remained sound, as indicated by the October 2010 unemployment rate of 5.3%, which remained below the commonwealth and national rates. Employment at Harvard and MIT drives the city's strong economy. City assessed valuation (AV) declined slightly to $24.16 billion in fiscal 2011, or, in our opinion, an extremely strong $227,000 per capita. Although the tax base is moderately concentrated, with the 10 largest taxpayers accounting for 20% of AV and 32% of the levy, the concentration is due in large part to taxable property owned by MIT, which accounts for 12% of the levy, and we consider MIT to be a very stable taxpayer. The difference between the proportional share of AV and tax levy is due to the city's dual tax rate. In addition to property taxes, the two universities also make payments in lieu of taxes (PILOTs) for their tax-exempt properties.

In our view, Cambridge's unreserved general fund balance remains very strong despite declines in fiscals 2009 and 2010. The unreserved balance closed at $129.5 million—or 31% of expenditures—at the end of fiscal 2010; this was a decline of $12.1 million, after nine consecutive general fund annual surpluses in the years before 2009. The decline was due to a budgeted appropriation of fund balance. The general fund balance includes stabilization funds for city and school operations, and officials expect to exhaust much of the city stabilization fund ($13.4 million) in future years to subsidize annual debt service. General fund cash was $178.9 million at the end of fiscal 2010, which covered current liabilities by 5.1x. In addition to the general fund balance, the city had an additional $13.0 million reserve in its parking fund, which provides additional financial flexibility.

The city also maintains the largest amount of unused Proposition 2 1/2 tax levy capacity in the commonwealth, $99.4 million for fiscal 2011, which is also the largest amount the city has had since the levy limits were enacted. The excess levy capacity allows city officials to increase the levy by that amount without the need for electorate-approved exemptions or overrides. The city's long-term forecast projects slightly reducing this excess levy capacity, but projects it will remain above $93 million. Property taxes are the leading revenue source, accounting for about 60% of general fund revenues, and collections have been strong, in our view, with current collections above 99.5% since fiscal 2006. State aid accounts for about 8% of general fund revenue, which makes the city less vulnerable to state aid reductions than most other municipalities in the commonwealth. Standard & Poor's considers Cambridge's financial management practices "strong" under its financial management assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable.

Net of self-supporting water and sewer debt, the city's debt burden is low, in our view, as a share of market value, at 0.9%, and moderate per capita, at $2,100. The city's carrying charge in fiscal 2010 is moderate, in our opinion, at 10% of operating expenditures. We view debt amortization as very rapid, with officials retiring about 80% of principal over 10 years.

Outlook

The stable outlook reflects Standard & Poor's expectation that Cambridge will continue to maintain a strong financial position, given the current levels and the city's historical positive budget variances. We also expect the city's economy and property tax base to remain strong. We do not expect that the rating will change within the two-year parameter of the stable outlook, as we anticipate the city will continue to maintain consistently strong reserve levels.

Economy: Diverse With Multiple Large Employers

Cambridge's commercial vacancy rate in the third quarter of 2010 declined to 11.6% from 12.8%. The city remains an employment center: In 2008, there were 107 jobs for every 100 city residents.

The city is home to 12 employers with more than 1,000 employees, the largest of which are:

- Harvard (10,720 employees),
- MIT (7,600),
- City of Cambridge government (2,920),
- Mount Auburn Hospital (2,100), and
- Novartis AG (2,100).

Cambridge is home to a concentrated cluster of world-recognized biotechnology and pharmaceutical firms that are attracted by the concentration of intellectual capital at Harvard, MIT, and research and development think tank Whitehead Institute. Private biotechnology firms account for six of the city's 25 leading employers.

Finances

The $468.5 million fiscal 2011 budget is 3.1% larger than fiscal 2010, which required a 5.7% tax levy increase. The budget is balanced with $11.4 million of general fund balance, which is reserved on the 2010 balance sheet; $8.3 million from the stabilization fund; and $2.0 million from an abatement overlay surplus. All of the city's collective bargaining contracts have been settled through fiscal 2011. Officials project that the general fund balance may decline by about $5.0 million in fiscal 2011, better than budget due primarily to positive revenue surpluses. The city's five-year financial forecasts project continued fund balance appropriations of $8.0 million to $9.0 million, similar to the amounts appropriated in fiscal 2008 and earlier, but management projects that it will have positive budget variances that will reduce the projected drawdowns. The city's policy requires at least a 15% fund balance.

The PILOTs from Harvard and MIT are about $5.0 million for fiscal 2011. The Harvard PILOT extends through 2055 and escalates by 3.0% per year, and the MIT PILOT extends through 2045 and has a 2.5% annual escalator. The MIT agreement also contains provisions that are designed to lessen the revenue impact to the city if MIT converts any of its currently taxable property to a nontaxable use.

Cambridge Health Alliance

In 1996, all employees, assets and liabilities of the former Cambridge Department of Health and Hospitals—with the exception of existing pensions and GO debt liabilities through 2018—were transferred to the Cambridge Public Health Commission, which is also known as the Cambridge Health Alliance. The commission is separate from the city. The alliance runs the Cambridge public health department and the city has agreed to continue to subsidize the alliance; the current agreement extends through fiscal 2017, and the city subsidy is $6.0 million in fiscal 2011.

Debt, Pensions, and OPEB

Cambridge's public improvement program projects $159.4 million of additional debt issuance in fiscals 2012 through 2015, of which $102.5 million is anticipated to be for self-supporting sewer system improvements. After this issuance, the city will have $60.3 million of authorized, but unissued, debt remaining. We expect that the city's additional debt burden should remain moderate.

As of Jan. 1, 2010, the city's unfunded pension actuarial accrued liability increased to $154 million. The city recently pushed the full pension funding date back to 2029 from 2013, due to investment losses. Officials indicate that once the city fully funds the pension liability, it might dedicate the former pension funding to making payments for the other postemployment benefits (OPEB) liability; but they have not yet made a decision on this funding issue.

The city established an OPEB trust fund in December 2009 and transferred $2.0 million from its health claims trust fund. As of July 1, 2009, the unfunded OPEB actuarial accrued liability was $622.8 million, with a fiscal 2010 annual OPEB cost of $44.9 million, which is significantly higher than the city's fiscal 2010 actual OPEB amount of $23.9 million (53% of the annual OPEB cost).

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Tax Supported
New Issue

Cambridge, Massachusetts

Ratings

New Issue	
General Obligation Municipal Purpose Loan of 2011	AAA
Outstanding Debt	
General Obligation Bonds	AAA

Rating Outlook

Stable

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New Issue Details

Sale Information: $46,220,000 General Obligation Municipal Purpose Loan of 2011, scheduled to sell competitively Feb. 15.
Security: General obligations of the city secured by an ad valorem property tax subject to the limitations under state law.
Purpose: Finance various city, sewer, and school capital improvements.
Final Maturity: Feb. 15, 2012–2031.

Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria
- *Tax-Supported Rating Criteria, Aug. 16, 2010*
- *U.S. Local Government Tax-Supported Rating Criteria, Oct. 8, 2010*

Rating Rationale

- Cambridge's exceptional financial management is characterized by its high reserve and liquidity levels.
- Conservative budgeting practices along with a use of reserves the past two years has helped keep tax levy increases at moderate levels while the city faces increases in education and public safety costs.
- The stable presence of higher education, healthcare, biotechnology, and life sciences industries supports the well-diversified economy with low unemployment and above-average wealth levels.
- Growth in assessed value (AV) provides the city with tax levy flexibility for operations and debt service as the gap between the city's actual tax levy and the statutory levy limit has grown to its highest level in the city's history.
- Debt levels are moderate and expected to remain manageable, aided by the city's rapid amortization rate.

Key Rating Drivers

- Ongoing sound financial management, which has benefited the city's financial position.

Credit Summary

Cambridge is located in Middlesex County across the Charles River from the city of Boston and is home to both Harvard University and Massachusetts Institute of Technology. These two highly acclaimed institutions continue to account for the employment of more than 18,300 people, but the city continues to consolidate its position as an employment leader in the biotechnology industry. Leading biotech companies, including Novartis, Biogen, Vertex Pharmaceuticals, Pfizer, and Genzyme, employ almost 9,000 Cambridge workers. Several major software and internet companies have recently established research and development operations in Cambridge including Microsoft, Google, and VMware. The city's well-diversified economy contributes to historically low unemployment rates (5.6% in November 2010) and high per capita money income figures (150% of the national average).

AV declined moderately in fiscal 2011 by 0.5%, but annual growth in AV has averaged 2.5% since 2007. The city is projecting stable valuations with a small decline in both commercial and residential assessed values in fiscal 2012 followed by a slight increase in fiscal 2013. A more moderate increase in fiscal years 2014 and 2015 is projected based on new construction, appreciation in values of existing property, and major rehabilitations. Numerous economic development projects are under way or in the planning stages and include expansions to existing corporate facilities and new offices or labs. Fitch notes that Cambridge's substantial $99.4 million of excess levy capacity under Proposition 2½ along with its considerable reserve levels provide the city with ample flexibility to weather the effects of the economic recession. Officials expect the city's excess levy capacity to decline modestly in line with projected AV declines and as a result of tax levy increases, which may be necessary to offset declines in state aid.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	2/1/11
AAA	Affirmed	Stable	1/28/10
AAA	Affirmed	Stable	3/6/07
AAA	Assigned	—	10/7/99

Exceptional financial management and planning are demonstrated by the city's strong financial position. The city had planned draws on its general fund reserves in fiscal years 2009 and 2010 to keep tax levies at moderate levels, and fiscal 2010 unreserved general fund balances declined to $129.5 million from $141.6 million in fiscal 2009 but still equaled a high 31% of spending. The city has historically maintained an unreserved fund balance well in excess of the city's fund balance policy requiring an unreserved general fund balance of at least 15% of the ensuing year's budgeted revenues. Cambridge's $89.3 million of certified free cash for fiscal 2010 remained among the largest amounts in the city's history. The fiscal 2011 operating budget grew by a manageable 3.1% over the fiscal 2010 level, attributable to higher salary, health, and pension costs, increased debt service, and a 53rd pay period. The budget includes the use of approximately $11.4 million in free cash for such purposes as supporting the tax rate, as is the city's practice, and includes $2.5 million for capital and overlay purposes. According to city officials, revenues are trending higher than expected, which could limit the actual use of appropriated free cash.

Net direct debt equals a moderate $2,561 per capita, and $4,552 per capita with the inclusion of overlapping debt, but as a percentage of fiscal 2011 equalized valuation of $27.9 billion, ratios are much lower at 1% and 1.8%, respectively. Debt levels should remain manageable given the city's modest overall capital needs and rapid amortization rate; approximately 76% of debt retires within 10 years. The city plans to issue approximately $159 million of additional debt over the next four years, with approximately 64% to be supported by user fees. The Cambridge retirement system was 84% funded as of the Jan. 1, 2010 valuation date, a decline from higher funded levels in years prior. Like most pension systems, asset values have declined recently, resulting in higher future projected annual required contributions (ARC). The city contributed $28.6 million for fiscal 2011 and has historically made 100% of its ARC. The city paid $23.9 million in pay-as-you-go OPEB contributions in fiscal 2010, which accounted for 53% of total OPEB costs. The city's unfunded OPEB liability totaled a high $623 million in fiscal 2010, and city management created an OPEB trust fund in December 2009 with an initial contribution of $2 million and has planned to make annual contribution of $2 million beginning in fiscal 2013.

Debt Statistics

($000)

This Issue	46,220
Outstanding Direct Debt	315,995
Less: Self-Supporting	102,692
Total Net Direct Debt	**259,523**
Overlapping Debt	201,868
Total Overall Debt	**461,391**
Debt Ratios	
Net Direct Debt Per Capita ($)[a]	2,561
As % of Market Value[b]	0.99
Overall Debt Per Capita ($)[a]	4,552
As % of Market Value[b]	1.77

[a]Population: 101,355 (2009). [b]Market value: $27,892,423,000 (2011). Note: Numbers may not add due to rounding.

General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2006	2007	2008	2009	2010
Property Tax	222,987	231,876	238,747	251,256	266,862
Other Tax	18,527	19,633	20,831	19,954	22,649
Total Tax	**241,514**	**251,509**	**259,578**	**271,210**	**289,511**
Charges for Services (Sewer Use Charges)	33,835	38,761	36,874	36,058	36,825
Intergovermental	44,143	44,658	47,576	37,234	32,139
Other Revenue	35,330	40,194	40,016	31,146	31,345
Total Revenues	**354,822**	**375,122**	**384,044**	**375,648**	**389,820**
% Change in Revenues	—	5.72	2.38	(2.19)	3.77
General Government	30,533	34,284	32,572	31,765	40,101
Public Safety	82,619	85,160	89,514	95,817	95,717
Educational	120,688	121,869	124,531	129,031	132,652
Debt Service	28,183	32,941	34,124	40,169	43,215
Other	88,476	90,460	96,957	101,695	105,633
Total Expenditures	**350,499**	**364,714**	**377,698**	**398,477**	**417,318**
% Change in Expenditures	—	4.06	3.56	5.50	4.73
Operating Surplus/(Deficit)	**4,323**	**10,408**	**6,346**	**(22,829)**	**(27,498)**
Transfers In	15,113	16,369	16,882	17,533	18,726
Other Sources	370	14,204	412	793	915
Transfers Out	7,386	11,175	8,782	6,520	2,341
Other Uses	0	13,819	0	0	0
Other Net Adjustments	0	0	0	0	0
Net Transfers and Other	8,097	5,579	8,512	11,806	17,300
Net Surplus/(Deficit)	**12,420**	**15,987**	**14,858**	**(11,023)**	**(10,198)**
Fund Balances					
Total Fund Balance	136,674	152,661	167,519	156,495	146,298
Unreserved Fund Balance	120,246	134,869	150,312	141,595	129,496
As % of Total Expenditures, Transfers Out, and Other Uses					
Total Fund Balance	38.19	39.17	43.34	38.64	34.86
Unreserved Fund Balance	33.60	34.61	38.89	34.96	30.86

Note: Numbers may not add due to rounding.